Gloves

Backloaded Pessimism

MARKET WEIGHT
(Maintained)

Analyst(s)
Jack Goh
jackgoh@uobkh.com
(03) 2147 1943

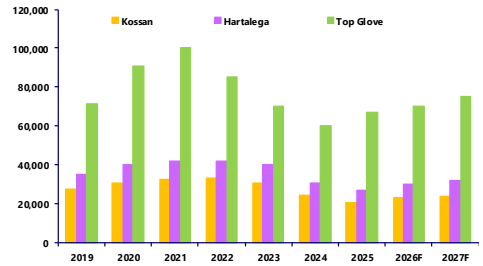
Highlights

- Declining sentiment for the sector following ASP retracement due to the de-escalation of US-Iran war has prompted us to downgrade our valuation peg from mean to -0.5SD below mean.
- Nevertheless, top-line improvement from the strengthening MYR/USD rate, improving efficiency and margin outlook will continue to sustain a 12-15% earnings growth in 2026-27.
- The sector's risk-reward pay-off appears neutral, as China's competition remains a mid-long-term threat. Maintain MARKET WEIGHT. Top pick: Kossan.

Analysis

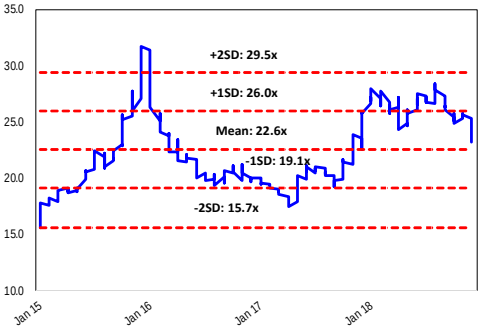
- **Tailwinds from US-Iran war are non-lasting, following ceasefire.** Recall that the onset of US-Iran war at end-February caused major disruptions to the global crude oil and petrochemical supply chains, resulting in an increase in input costs for rubber glove production (raw material prices surged 30-50% on average). To adequately offset this, Malaysian glovemakers raised ASP to US$26-28/'000 pcs in April-June shipments, resulting in a short-term margin expansion in 2Q26.
- **Premium ASPs and mix for spot sales could be compromised...** The April-June ASP hikes are mainly a function of cost-push mechanisms, partly reflecting an unparalleled surge in demand caused by concerns of shortages. Hence, in line with easing crude oil and chemical prices, such urgent demands are seeing a pull-back and impacting the premium ASP commanded by spot sales. Our channel checks revealed that July ASPs for generic nitrile gloves have moderated towards US$22-23/'000 pcs, while August ASP has further softened to around US$20/'000 pcs. We anticipate a further normalisation of ASP towards US$18-19/'000 pcs in 4Q26 as the de-escalation of the Middle East tensions continues.
- **…but be offset by moderating input costs and a better MYR/USD rate.** Positively, nitrile latex prices have also eased by 10-15% from April's peak. Coupled with the recent rebound in the MYR/USD rate from a low of RM3.89 in February to around RM4.15 currently, we anticipate a modest uplift to sector top-line in 2H26. We have earlier built in a forex assumption of RM4.05/US$ up till 2027.Our calculations show that every 1% appreciation of the ringgit against the US dollar could dilute glove makers' earnings by 1-2%, excluding the shared cost savings mechanism with customers.
- **Improving outlook, but valuations likely to tumble as sentiment normalises.** With the de-escalation of the Middle East tensions, the sector is now trading at -0.5SD below mean valuations on consensus' 2027 earnings forecasts. We opine that despite improving profitability and efficiency, the sector's valuations are undergoing a structural de-rating, dragged by permanent disruption from Chinese players' capacity influx and aggressive pursuit of market share which will continue to weigh on investors' sentiment.

Malaysia Glovemakers' Effective Capacity



Source: Respective Companies, UOB Kay Hian

Sector Valuations (Pre-COVID-19)



Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Share Price 1 Jul 26 (RM)	Target Price (RM)	Market Cap (US$m)	PE FY25 (x)	PE FY26F (x)	PE FY27F (x)	P/B FY25F (x)	P/B FY26F (x)	P/B FY27F (x)	2027F Div Yield (%)
Top Glove	TOPG MK	HOLD	0.685	0.66	1,342.2	51.1	22.4	23.4	1.2	1.1	1.1	2.2
Hartalega	HART MK	HOLD	0.99	1.06	824.4	46.5	22.8	22.0	0.8	0.7	0.7	2.4
Kossan Rubber	KRI MK	BUY	1.02	1.26	628.7	21.6	19.5	20.5	0.7	0.7	0.7	4.1

Sources: Bloomberg, UOB Kay Hian

- **Indicators still point to uptrend but plateauing.** The glove manufacturing sector's operating margins are due to expand as: a) incremental revisions in ASPs flow straight down to operational earnings; and b) glove producers operate at better utilisation rates which improve efficiencies and allow better economies of scale. These factors are expected to offset the potential natural gas tariff hike in 4Q26. For 2026, we assess that the Malaysian glovemakers' volume sales may see a 10-15% yoy growth, lifted by a better restocking cycle from distributors and customers. Coupled with margin expansion from operational enhancement (from various automation and cost rationalisation efforts over the past two years), the sector is estimated to deliver a commendable 12-15% earnings growth in 2026-27.
- **Restoration to pre-pandemic earnings dynamic remains difficult...** Although the worst is over, we believe that Malaysian glove manufacturers are still facing an upward slope in restoring their pre-pandemic profitability. Several structural changes such as the persistent competition from China peers are key resistances towards restoring pre COVID-19 earnings levels. Moreover, additional production capacity from Chinese glovemakers only takes 12-18 months to build up currently, resulting in oversupply, a sub-optimal utilisation rate and shorter inventory cycles over mid-long-term horizons.
- **…as China's red ocean strategy and industry oversupply remain challenging.** Given the severity of the current US tariffs, China glovemakers have largely reduced their exposure to the US market and re-channelled their sales to regions like Europe and Asia with more competitive price-cutting strategies. Furthermore, some Chinese players are exploring capacity expansion in other ASEAN countries such as Indonesia, Vietnam and Thailand, deepening the overcapacity issues and weighing on Malaysian glovemakers' profitability over the longer term.
- **Continued sell-down reflects fragile sentiment and structural de-rating.** Following the recent rightsizing in valuations as a result of a less optimistic sector outlook, domestic glovemakers' share prices have corrected 20-24% in June. The steep share price action reflects the pessimistic sentiment in tandem with the sector's bleak outlook, with valuations now trading close to -0.5SD below historical mean valuations on 2027's earnings. We opine that share price will stabilise at current levels given discounted valuations which are below book value, but a lack of immediate catalysts is limiting capital upside.

2027 Valuations And Implied Target Prices

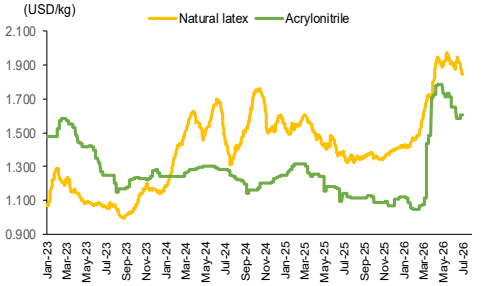
Companies	Valuations	2027F		
		EPS forecasts (sen)	Implied TP (RM)	% Upside from current share price
Hartalega	24x PE (-0.5SD below mean)	4.4	1.06	7.1
Top Glove	22x PE (-0.5SD below mean)	3.0	0.66	(3.6)
Kossan	14x ex-cash PE (-0.5SD mean)	4.8	1.26	23.5

Source: UOB Kay Hian

Valuation/Recommendation

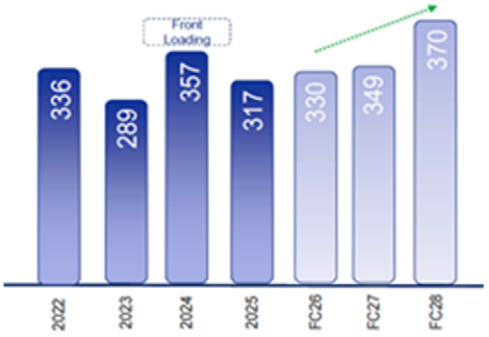
- **Maintain MARKET WEIGHT on the Malaysian glove sector.** Risk-reward payoff appears balanced as the recent share price rally has already priced in earnings recovery through 2027 (based on consensus forecast).
- **We downgrade our valuation peg from mean to -0.5SD below mean,** reflecting weakening sentiment on the sector as ASPs normalise following the de-escalation of the Middle East tensions.
- **Maintain HOLD on Top Glove and Hartalega** with lower target prices of RM0.66 and RM1.06 respectively following adjustments to valuation pegs.
- **Our sector top pick is Kossan (BUY/Target:RM1.26)** which commands relatively discounted valuations and has a huge net cash position of RM1.65b (around 65 sen/share or 64% of its current market cap).

Global Nitrile And Latex Gloves Production Capacity



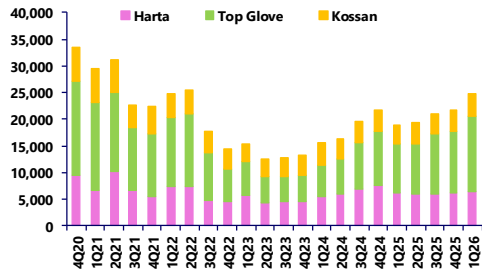
Source: OILCHEM

Global Gloves Demand (b' pieces)



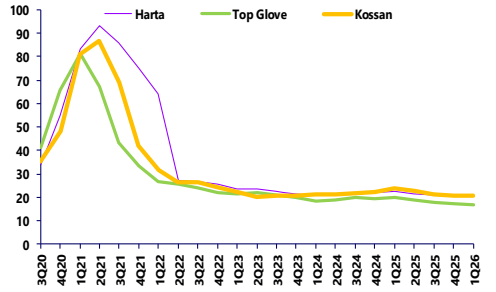
Source: Hartalega, International Trade Center (ITC)

Malaysia Glovemakers' Quarterly Sales Volume (m' pieces)



Source: Respective companies, UOB Kay Hian

Malaysia Glovemakers' Quarterly ASP (US$/'000 pieces)



Source: Respective companies, UOB Kay Hian

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